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SUBJECT: ECUADOR'S TEXTILE SECTOR: SURPRISING SIGNS OF STRENGTH

REFTEL: Quito 601

¶1. (U) Summary: Ecuador's textile sector has had to deal with the bankruptcy of a large exporter and stagnant investment due to uncertainty over Ecuador's political climate, the renewal of ATPA, and the potential impact of the U.S.-Columbia free trade agreement (FTA). However, exports of some products to Colombia and Venezuela are growing, companies are planning new investments, and the industry may rebound this year. End Summary.

¶2. (U) Ecuador's textile industry has shown flat investment and declining exports for the past year. Due to concern over whether the Andean Trade Preference Act (ATPA) will be renewed, textile producers that export principally to the U.S. have invested only amounts necessary to maintain business operations, rather than expand exports. In addition, the industry has expressed concern that if Colombia has an FTA with the U.S., Ecuadorian inputs into Colombian products for export to the U.S. would not count toward accumulation for origin purposes (as they do now under ATPA). This is a significant market for Ecuador, and the impact of its loss could be substantial.

¶3. (U) Total textile exports from Ecuador have declined steadily over the last year, with manufactured textiles (sheets, towels, tablecloths) the only subsector to experience export growth between 2006 and 2007. These problems mask hidden strengths in the industry, however, and several factors suggest that the industry may be well-positioned for the future.

#### Regional and International Strength

¶4. (SBU) The growth in manufactured textile exports from Ecuador can be attributed to a growing competitive advantage vis-a-vis Colombia and Venezuela. According to La Escala, a large U.S.-owned textile company in Ecuador, the appreciation of the Colombian peso has made Colombia's textile products more expensive, boosting demand for imports from neighboring Ecuador. In Venezuela, government policies have destroyed the textile industry, indirectly creating a market opportunity for Ecuadorian textile exporters. La Escala stated that it will expand its exports to both Colombia and Venezuela this year.

¶5. (U) Ecuadorian textile companies also find themselves increasingly competitive in comparison with companies from China. Textile production costs are rising in China due to higher wages, the elimination of export rebates, forced environmental compliance, and the appreciation of the yuan. This has made Ecuadorian companies more competitive and has allowed them to raise prices. The industry has also benefited from a GOE crackdown on the importation of cheap contraband goods from China (reftel), and from changes to the GOE's procurement policy, both of which have encouraged the development of the local textile industry.

## Stagnant Investment May Soon Recover

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¶6. (SBU) Although companies remain concerned about the renewal of ATPA and the draft constitution, La Escala noted that its 2007-2008 investments will total \$1.3 million. Other textile companies within the Ecuadorian Textile Association (AITE) plan to invest a combined \$18 million in Ecuador during 2008. La Escala credits the improved 2008 textile investment climate to companies' ability to raise prices in order to offset higher raw material costs. AITE suggests that last year's declining exports were primarily due to the bankruptcy of La Internacional, a large Ecuadorian textile exporter that was taken over by Vicuna of Brazil. Vicuna took almost nine months to reorganize La Internacional, but its exports are expected to increase this year as Vicuna implements a \$20 million expansion of denim production. AITE expects additional investment to come from a new government program to help textile producers in Atuntaqui, a town near Otavalo known for quality textile goods, prepare their products for export.

### COMMENT:

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¶7. (SBU) In spite of the continuing uncertainties, Ecuador's textile industry is evidently strong enough that investors are willing to devote resources (as seen by Brazilian firm Vicuna's takeover of a bankrupt Ecuadorian company and planned 2008 investment). The combination of Colombia and China's rising textile prices, the decline of the Venezuelan textile industry, and GOE crackdowns on contraband have all improved Ecuador's competitive position. The pending FTAs with Colombia and Peru have yet to have an impact on Ecuador's textile industry.

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